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May 16, 2007

Mr. Russell T. Larson
Controller General
Office of the Controller General
Legislative Hall
411 Legislative Avenue
Dover, DE 19901

Ms. Jennifer Wagner-Davis
Secretary
Office of Management and Budget
Thomas Collins Building
Dover, DE 19901

Mr. Philip J. Cherry
Director of Policy & Planning
Department of Natural Resources &
Environmental Control
89 Kings Highway
Dover, DE 19901

Mr. Bruce H. Burcat
Executive Director
Delaware Public Service Commission
861 Silver Lake Boulevard
Cannon Building, Suite 100
Dover, DE 19904

Dear Mr. Larson, Ms. Davis, Mr. Cherry, and Mr. Burcat:

Last week, before the Public Service Commission (PSC) and State-Agency participants designated by HB 6, there was a hearing on the report of the "PSC Staff Review and Recommendations on Generation Bid Proposals." In that hearing, the PSC indicated its intent to approve the Staff's recommendation to direct Delmarva Power to negotiate with Bluewater Wind for an off shore wind farm in the 200 – 300 MW range and Conectiv Energy and NRG for a 150 -200 MW CCGT with synchronous condenser capabilities, as part of its portfolio to supply energy needs.

Since that hearing, there has been substantial feedback that the State Agency participants are concerned about the direction taken by the PSC and may be planning to meet for further discussions. According to recent news reports, concerns have arisen relating to potential price increases should the staff recommendation be implemented. We urge the Agency participants to have such discussions. We are confident that the Staff recommendations are inconsistent with the intent of HB 6, which requires supply options to be at the lowest costs to customers.

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The need for further examination has been reinforced by two events since last week's hearing:

- (1) NBrockway and Associates issued a report commissioned by the Office of Management and Budget on behalf of the Delaware General Assembly in response to the crisis in power rates (the Brockway Study);
- (2) On May 10, 2007, Hearing Examiner William F. O'Brien issued an opinion which suspended the IRP process until July 10 on the basis that the PSC's decision on the staff recommendation pre-empts that process. The Hearing Examiner also stated that the General Assembly is currently considering several bills that could undo any efforts associated with the RFP or IRP processes. The Brockway Study, as well as the Hearing Examiner's opinion, demonstrates that legislative directions are necessary to achieve the goals of HB 6. At a minimum, the Brockway Study suggests that the State should carefully weigh the benefits associated with renewable sources against costs to consumers.

As noted at the PSC hearing, the significant cost burden associated with the projects, which the Commission apparently intends to order Delmarva Power to negotiate, will be imposed on a minority of Delaware customers rather than on all of the residents of Delaware, as would be appropriate for such a major public policy initiative.

We strongly believe that the cost associated with any such energy policy solution should be shared by all customers and energy users who benefit from the solution. **Instead, the current proposals, would require a small customer group, composed mostly of Delaware Power's residential and small business customers, including thousands of low-income and middle-income users struggling daily to make their energy payments, to pay the entire cost of the projects.**

Recognizing that the PSC's staff's recommendations were based upon unclear legislative directions, I hope you can agree with me that it is ironic that a process commenced under HB 6, for the purpose of reducing or stabilizing consumer prices, has resulted in consideration of a "solution" that has received no actual regulatory review and that has the potential to once again dramatically increase prices for Delmarva Power's customers.

Delmarva Power supports the use of renewable resources as a part of the portfolio of energy supply for our customers. Such support, however, should not overtake the original intent of the legislation. Delmarva Power believes that there will indeed be a place for wind in Delaware's energy future. We also support photovoltaic and every

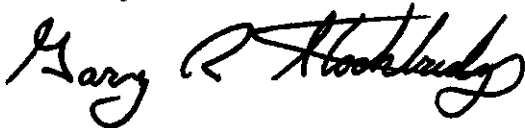
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renewable energy effort that can be part of Delaware's energy future. The Brockway study suggests how the State should move forward regarding our energy needs. The suggestion does not include Delmarva Power being forced to negotiate a long-term contract that imposes substantial additional cost on Delmarva Power's customers.

In conclusion, please know that Delmarva Power wants to be a strong and active partner in a process that will truly result in the right solution for Delaware. One of the purposes of HB 6 was to give State agencies other than the PSC a policy decision-making role in the RFP process. I urge you to exercise the authority granted to you in that statute by rejecting the PSC's decision, which will prompt a State-wide legislative effort to come up with the right solution—shared by all consumers in Delaware.

And again in closing, let me assure you that Delmarva Power wants to partner with the State on meeting the energy needs of Delaware and Delmarva Power's customers now and into the future. I would greatly appreciate the opportunity to meet with you to discuss this matter further.

Sincerely,



Gary R. Stockbridge
President, Delmarva Power Region

cc: The Honorable Ruth Ann Minner, Governor, State of Delaware
The Honorable Joseph R. Biden, Jr., United States Senate
The Honorable Thomas R. Carper, United States Senate
The Honorable Michael N. Castle, United States Congress
All Members of the Delaware General Assembly
Mr. Mark T. Brainard, Chief of Staff
Mr. John A. Hughes, Secretary, Natural Resources & Environmental Control
Mr. Charlie T. Smisson, Jr., State Energy Coordinator